

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

www.irs.gov/newsroom

Public Contact: 800.829.1040

IRS Moves to Stop Abusive Telephone Tax Refund Requests; Search Warrants Target Tax Preparers in Seven Cities Nationwide

IR-2007-36, Feb. 16, 2007

WASHINGTON — Search warrants were carried out in seven cities this week by special agents from the Internal Revenue Service. According to affidavits filed in federal court, the IRS is seeking evidence from tax-preparation businesses suspected of preparing returns on behalf of clients requesting egregious amounts involving this year's special telephone excise tax refund.

IRS criminal investigators served search warrants at tax preparation businesses in Atlanta, Ga.; Dallas, Tyler and Athens, Texas; Riverside, Calif.; Miami, Fla.; and New Orleans, La. Special agents temporarily closed the businesses, seizing computers and documents to use in their investigations.

"We want everyone who is eligible for the telephone tax refund to claim it but not to inflate the amount requested," said IRS Commissioner Mark W. Everson. "We have seen limited but serious instances of abuse, and we've sent in criminal investigators to pursue the matter accordingly."

Along with the IRS enforcement action in seven cities, other tax preparers across the nation who are preparing questionable telephone tax refund requests are receiving visits from IRS revenue agents (auditors) and special agents. The agency began conducting the visits last week. The IRS advised taxpayers to stay away from unscrupulous promoters and tax preparers who make false claims about the telephone tax refund and suggest that many, if not most, phone customers can get hundreds of dollars or more back under this program.

At the same time, the IRS urged taxpayers now filling out their 2006 returns not to overlook the telephone tax refund. Out of early filers, nearly one in three are failing to request this special refund, and although some of them may not be eligible, others may qualify and not know it. The vast majority of those who are requesting it are doing so correctly.

The government stopped collecting the long-distance excise tax last August after several federal court decisions held that the tax does not apply to long-distance service as it is billed today. Officials also authorized a one-time refund of the federal excise tax paid on service billed during the previous 41 months, stretching from the beginning of March 2003 to the end of July 2006. The tax continues to apply to local-only phone service.

The IRS has monitored telephone excise tax refund requests for potential problems since the tax-filing season opened in early January. The agency has seen some problems with returns from tax preparers that may indicate criminal intent.

Some tax-return preparers are requesting thousands of dollars of refunds for their clients in instances where clients are entitled to only a tiny fraction of that amount. In some cases, taxpayers requested a refund in the thousands of dollars, suggesting that the taxpayer paid more for telephone service than they received in income. In several instances, taxpayers requested a refund of \$30,000 — hundreds of times of what could be reasonably expected. Some refund requests appear to be for the entire amount of the taxpayer's phone bill, rather than just the three-percent long-distance tax.

Taxpayers who request more of a refund than they are entitled to receive will have their refunds held and be subject to an audit.

To make the refund easier to figure, the government established a standard refund amount, based on personal exemptions, ranging from \$30 to \$60. If taxpayers have phone bills and other records, they can request the actual amount of excise tax paid. Though using the standard amount is optional, it is easy to figure and approximates the eligible amount for most individual taxpayers. Taxpayers only have to fill out one line on their return, and they don't need to present proof to the IRS.

To avoid mistakes and get a refund quickly, the IRS encourages taxpayers to file their tax return electronically and electronically deposit their refund directly into a checking or savings account. Electronic-filing software helps taxpayers figure tax breaks, such as the telephone tax refund, accurately and report them properly. Free e-file services are available to low and moderate-income taxpayers (incomes of \$52,000 or less) through the Free File link on IRS.gov.

The best and most reliable information on this unique refund can be found in the Telephone Excise Tax Refund section on the front page of IRS.gov, the tax agency's Web site. Here, taxpayers can download forms, find answers to frequently-asked questions and link to participating private-sector Free File partners offering free electronic-filing services.